

## CBO Shaves \$100 Billion from ACA's Ten-Year Cost Projection

Since the passage of the *Patient Protection and Affordable Care Act* (ACA), the Congressional Budget Office (CBO) and the Joint Committee on Tax (JCT) have attempted to estimate the cost of implementing the ACA's provisions, as well as assess its overall budgetary effects.<sup>1</sup> Most recently, in April 2014, the CBO reduced its estimate for the cost of health insurance coverage expansion under the ACA, projecting that these provisions will cost \$36 billion for 2014, which is \$5 billion *less* than the CBO's previous projection.<sup>2</sup> The CBO also reduced its estimate for the cost of implementing the ACA's coverage provisions over the next decade to \$1.383 trillion, an estimate that is more than \$100 billion *less* than previous forecasts.<sup>3</sup>

Most of the budgetary effects of the ACA's coverage provisions relate to federal subsidies for individuals purchasing insurance on the insurance exchanges, as well as increased spending on Medicaid.<sup>4</sup> Of note, the CBO offsets these increases in spending with penalty payments and additional taxes introduced by the ACA (e.g., excise taxes on high-premium plans, income and payroll tax revenues).<sup>5</sup> Since the passage of the ACA in March 2010, the estimates of costs related to the law's coverage provisions for the years 2014 through 2019 by the CBO and JCT have fallen, from \$759 billion, to the most recent estimate of \$659 billion.<sup>6</sup> The net downward revisions are attributable to a number of factors, including: (1) changes to the law; (2) revisions to the CBO's economic projections; (3) new data; and, (4) judicial decisions.<sup>7</sup> For example, following the U.S. Supreme Court decision in *National Federation of Independent Business v. Sebelius*, a decision that, in effect, made the ACA's Medicaid expansion optional, the CBO and JCT made a downward adjustment of approximately \$84 billion to their cost estimate of the ACA's insurance coverage provisions for the 2012-2022 period.<sup>8</sup>

Regarding their most recent estimate, the CBO and JCT indicated that their downward adjustment was due primarily to the CBO's decreased projection regarding federal spending on subsidies for insurance premiums.<sup>9</sup> Specifically, the CBO estimated that federal spending for these subsidies would decrease by \$3 billion in 2014 and \$164 billion over the next decade.<sup>10</sup> This change in the CBO's estimate is due to a number of factors, including: (1) changes in estimates of labor force participation; (2) changes in wages and salaries; and, (3) changes in population estimates.<sup>11</sup> Estimates of the labor force participation rate among individuals under the age of 65;

wages and salaries; and, the total population under the age of 65, were all recently revised to be lower than originally anticipated.<sup>12</sup> Most notably, the reduction of the total population under the age of 65 had a significant effect on the total cost of the ACA,<sup>13</sup> as fewer individuals are predicted to be eligible for Medicaid or premium subsidies.

In its April 2014 report, the CBO also made projections related to insurance enrollment and penalty revenue that individuals and employers who fail to purchase or provide health insurance coverage will pay. With regards to enrollment estimates, the CBO estimates that 26 million people who would not have had insurance without the enactment of the ACA will have insurance by 2017.<sup>14</sup> Additionally, the CBO trimmed its estimate of penalties, estimating that individual penalty payments will amount to \$46 billion, and employer penalty payments will amount to \$139 billion over a decade.<sup>15</sup>

Although the enactment of many provisions of the ACA, including the insurance coverage expansion provisions, is costly, the CBO maintains that in the long run, the ACA should reduce federal budget deficits in the U.S.<sup>16</sup> More specifically, the CBO and JCT anticipate that the ACA's coverage provisions will reduce the federal budget deficit by \$152 billion for the 2015-2024 period.<sup>17</sup>

1 "Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act, April 2014," Congressional Budget Office. April, 2014, [http://www.cbo.gov/sites/default/files/cbofiles/attachments/45231-ACA\\_Estimates.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/45231-ACA_Estimates.pdf) (Accessed 5/16/2014), p. 20-21.

2 *Ibid*, p. 1.

3 "Budget Office Lowers Estimate for the Cost of Expanding Health Coverage," By Annie Lowrey, The New York Times, April 14, 2014, [http://www.nytimes.com/2014/04/15/us/politics/budget-office-lowers-estimate-for-cost-of-expanding-health-coverage.html?\\_r=0](http://www.nytimes.com/2014/04/15/us/politics/budget-office-lowers-estimate-for-cost-of-expanding-health-coverage.html?_r=0) (Accessed 5/16/2014).

4 CBO, April 2014, p. 5.

5 *Ibid*.

6 *Ibid*, p. 21.

7 *Ibid*; "Estimates for the Insurance Coverage Provisions of the Affordable Care Act Update for the Recent Supreme Court Decision," Congressional Budget Office, July 2012, p. 1.

8 *Ibid*, p. 1-2.

9 Annie Lowrey, April 14, 2014.

10 *Ibid*.

11 CBO, April 2014, p. 15.

12 *Ibid*.

13 *Ibid*.

14 Annie Lowrey, April 14, 2014.

15 Annie Lowrey, April 14, 2014.

16 CBO, April 2014, p. 1.

17 CBO, April 2014, p. 20.



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